STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. 04-02-AESD

Subject: **Phasing-Out the Difference Between the Pool's Normal Cost and the Individual Employer's Plan's Normal Cost Upon Joining the Risk Pooling Structure.**

WHEREAS, 1. In accordance with Government Code section 20120, the Board of Administration of the California Public Employees' Retirement System (the "Board") is vested with the management and control of the Public Employees' Retirement System (the "System").

WHEREAS, 2. Under Article XVI, section 17 of the California Constitution (the "Constitution"), the Board has plenary authority and fiduciary responsibility for the investment of monies and administration of the System. The Constitution also vests the Board with the sole and exclusive power to provide for the actuarial services in order to assure the competency of the System.

WHEREAS, 3. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.

WHEREAS, 4. Also in furtherance of this sole and exclusive duty to make actuarial determinations, the CalPERS Board has retained the services of an outside consulting actuarial firm, to review the work of the Board's actuarial staff and to certify that such work satisfies professional actuarial standards.

WHEREAS, 5. Both the Board's Chief Actuary and its consulting actuary have advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the Systems.

NOW, THEREFORE, BE IT RESOLVED:

The Chief actuary shall establish a phase out of the difference between the pool's normal cost and the individual employer's plan's normal cost over a period of five years upon the time when an existing public agency rate plan joins the risk pool structure for the first time.

The five year phase out of the difference in normal costs will be established only once (at the time of joining the risk pool structure). The phase-out shall begin with the actuarial valuation at the time of joining the pool. The phase out of the difference shall not be affected by benefit improvements or changes in demographics.

When setting employer contribution rates for employers participating in a risk pool, the five year phase out shall be accomplished as follows:

- First year, 100% of the difference is added (if the pool's normal cost is less than the individual employer's plan normal cost) or subtracted (if the pool's normal cost is greater than the individual employer's plan normal cost) to the pool's rate to determine the employer's rate.
- Second year, 80% of the difference is added/subtracted to the pool's rate to determine the employer's rate.
- Third year, 60% of the difference is added/subtracted to the pool's rate to determine the employer's rate.
- Fourth year, 40% of the difference is added/subtracted to the pool's rate to determine the employer's rate.
- Fifth year, 20% of the difference is added/subtracted to the pool's rate to determine the employer's rate.
- Sixth year, the phase out is over and the rate plan is subject to the pool's rate.

New public agency rate plans as well as new rate plans for school districts joining risk pooling shall be subject to the normal cost of the pool they are joining without any phasing out.

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I hereby certify that on the 16th day of June, 2004 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution.

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SEAN HARRIGAN, PRESIDENT
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM